AOD-204

AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, October 29, 1974

WEATHER STILL CALLING SHOTS

The weather, which had the first word in the 1974 crop season, also seemed determined to have the last. Unusually early frosts in late September and early October froze out crops across the eastern two-thirds of the United States, as far south as Georgia. The impact was deepened because many fields had been planted late and were maturing very slowly following a cool spell in late summer. USDA's October 1 crop production survey showed extensive damage to corn and grain sorghum production, plus losses for soybeans, cotton, and wheat. Only rice prospects among major crops picked up over September 1. The monthly survey did not account for any damage from frosts that hit shortly after October 1.

With this latest blow to 1974 crop production, agriculture is vying with the general economy in the gloomy headline department. Coupled with very small carryover levels from 1973 crops, supplies of feed grains may be the least since blight reduced the corn crop in 1970. Wheat supplies are going to be the lowest in 5 years, even with a record crop. Soybean supplies may fall 200 million bushels short of the 1973 record.

In relation to expected demand, these supply levels are extremely tight. Corn, wheat, and soybean prices, already high, may go higher in the months ahead. Domestic and foreign users will be competing to get the supplies they require. And carryout levels of feed grains and soybeans prior to harvest of 1975 crops are likely to be even lower than those of this summer and fall. The feed grain carryout tentatively projected for 1975 would be the lowest since 1948. The soybean carryout would be down to 60 million bushels, the same low

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WHERE THE ECONOMY IS HEADED

The U.S. economy's track record for the first three quarters of 1974 provides little optimism about the outlook for the remainder of this year or for much of 1975. Real GNP is declining and inflation has accelerated. Net exports of goods and services showed a deficit in the second and third quarters after recording significant surpluses since mid-1973. Gross private domestic investment dropped fairly sharply in the third quarter. As non-residential fixed investment weakened, inventories were running down, and the housing sector remained in a slump.

Shrinking Dollars

Inflationary pressures have eroded a large amount of purchasing power. Real per capita disposable income in the third quarter was below the fourth-quarter 1972 level. The savings rate declined from a high of 9½ percent in late 1973 to 6½ percent in the third quarter of 1974. The unemployment rate increased sharply in September and seems likely to exceed 6 percent by year's end.

The remainder of 1974 will be a period of high inflation and no

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FARMERS MAY BOOST ACREAGE

Back in March, when 1974 still looked good on paper, U.S. farmers planned a big boost in planted acreage. USDA calculated that farmers' plans would result in harvest of 335 million acres, not counting acres double cropped. After a year of traumatic weather and tight input supplies, we now expect to harvest an estimated 322 million acres. This compares with 318 million acres actually harvested in 1973 and 289 million in 1972. Next year farmers are expected to plant all out, as they planned to this spring. This is likely to boost harvested acreage moderately given more normal weather next season.

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Agricultural Outlook Digest is published by the Economic Research Service, U.S. Department of Agriculture.

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level as in September 1973. Wheat ending stocks may be little different, but still minimal.

Three crops important to the South, cotton, rice, and sugarcane, have received assorted treatment from the weather.

In one month, a run of wet weather slashed prospective cotton production 370,000 bales. This leaves a crop estimated at 12.8 million bales, down 3 percent from last season. Yet this is still likely to be more than the markets will take at recent prices. Use in American mills and exports are both expected to drop, and stocks may build up to 4-1/2 to 5-1/2 million bales in the year ahead, compared with ending stocks this August of less than 4 million bales.

Rice production prospects have been improving as the crop matures. Production is now estimated a record large 113.6 million hundredweight. Total supplies of over 120 million hundredweight for 1974/75 compare with less than 100 million in the prior season. This will leave a large ending carryover in 1975.

The October 1 crop report indicated that hurricane Carmen cut U.S. sugarcane production to 1 percent below 1973. Beet sugar prospects improved during September, but prospects were for a 6-percent smaller 1974 crop.

Domestic refined sugar production in 1974/75 is forecast to drop 100,000 tons or more from the 5.36 million tons of sugar refined in 1973/74.

Foreign Frustration

The reduced state of American crops is frustrating news for foreigners as well. Already staggering under skyhigh oil bills and declining economies, many food importing nations can ill afforo to buy $5 wheat, $4 corn, and $8 soybeans. Further, discussions of world food security and the development of a world grain reserve at the upcoming food conference in Rome this November will be largely academic for the short run from the U.S. standpoint.

Prospective 1974/75 crop supplies and demand based on October 1 conditions[1]

	Wheat	Rice	Feed grains	Corn	Soybeans[2]
	Mil. bu.	*Mil. cwt.*	*Mil. tons*	*Mil. bu.*	*Mil. bu.*
Supply:					
Old crop stocks . .	249	7.8	22.2	481	172
Output & Imports	1,782	113.6	168.4	4,719	1,262
Total	2,031	121.4	190.6	5,200	1,434
Utilization:					
Domestic	688-738	38.0-37.2	145.7-146.8	3,960-3,990	775-805
Exports	1,100-1,000	64.3-58.1	32.1-29.8	925-875	515-485
Total	1,788-1,738	102.3-95.3	177.8-176.6	4,885-4,865	1,290-1,290
Carryover	243-293	19.1-26.1	12.8-14.0	315-335	60-60

[1] 1974/75 begins July 1 for wheat, September 1 for soybeans, and October 1 for corn.
[2] Domestic use includes seed, feed, and residual.

FOOD PRICE RISE TO SLOW DESPITE SETBACKS

Following a period of relatively stable monthly averages beginning last March, retail food prices rose about 1½ percent in both August and September. However, the rate of rise is expected to slow again this fall despite our disappointing 1974 grain harvest.

For one thing, the October crop report contained good as well as bad news for shoppers. Crops of potatoes, sweet potatoes, rice, and dry beans and peas are larger to much larger than last year. This winter, a record large orange crop is likely.

Also working to slow fall price increases are large cold storage and freezer stocks of turkey, beef, pork, egg products, cheese and butter, and fishery products which accumulated during the early part of 1974.

Finally, meat production will be very large this fall. Pork production has increased seasonally and is running above last year's level and beef production will break records this fall and stay large into 1975. An unusually large proportion of this beef—over a third—is coming from ranges with little or no grain finishing.

Eventually, however, the full impact of reduced 1974 crops will catch up with food shoppers. Poultry and egg production has already retreated in the face of soaring feed costs. Milk production was up in summer relative to year-earlier levels but will be pinched as farmers dole out costly feed. Pork production will drop in early 1975. Large slaughter from a record beef herd will continue next year, holding up beef production. However, if the feeder cattle market stays depressed or ranges dry up again, heavy calf slaughter would eventually restrict beef supplies.

ECONOMY, continued from p. 1.

growth, with unemployment continuing to move up. For all of 1974, inflation will boost average prices about 10 percent above 1973 and the economy will decline more than 1 percent. Although income in current dollars will continue to gain in the second half of the year, real per capita disposable income in 1974 will likely average 3-4 percent below 1973. This pattern will likely extend at least until mid-1975.

Inflation to Ease

A gradual reduction of inflation from the current 2-digit rates will likely occur, but inflation will remain at high levels compared to historical experience. Prospects point to a 10-percent annual rate for the remainder of 1974, possibly easing to 7½-8 percent by mid-1975. These inflationary developments reflect in part a shift from demand-pull inflation, fueled by demand in excess of available supplies, to a cost-push situation reflecting sharp rises in unit labor costs.

VEGETABLE PRICE TURNAROUND

Higher fresh vegetable prices to growers and to consumers than a year earlier are in line this fall. Farm prices for fresh market vegetables have been running below those of 1973, when record onion prices held the average up. However, the decline in prices that's seasonal for summer months was less severe than last year, even with output from home vegetable gardens probably larger.

As onions inflated average fresh-market prices early in 1973, lettuce depressed them last fall. This year farmers report a substantial cutback in lettuce acreage for fall harvest, along with less carrots and tomatoes. This is knocking down prospective fall fresh vegetable acreage 8 percent from last fall and will likely stimulate fall prices above 1973 levels.

While fresh vegetables so far this year have brought less at the farm, they have brought about the same or more at the store. The reason is the upturn in farm-retail price spreads, due largely to higher costs for labor, shipping, and packaging between the farm gate and the retail produce counter.

Fresh vegetable prices, except potatoes

	Prices received by farmers	Retail prices
	1967=100	
1970	112	121
1971	127	126
1972	131	133
1973	157	152
1974 estimated	155	157

Potatoes

U.S. fall potato production is expected to be 287 million hundredweight, a record crop, 13 percent above last year. Production in the Eastern States is 23 percent above a year earlier while the Central States have 13 percent more and there is a tenth-larger crop in the West. Grower prices can be expected to move lower, even with the need for larger supplies for processing purposes. The size of this crop would indicate only moderate seasonal escalation in shipping point prices through spring 1975.

A 7-percent larger sweetpotato crop has moved grower prices for both fresh marketing and processing below a year earlier.

Beans

Record yields have pushed U.S. dry bean production to 22 million hundredweight, 31 percent more than last year. A crop this large will furnish plentiful supplies for domestic canners, dry pack users, and export trade. Grower prices have been moving steadily downward since the March peak. Further selective declines by class are likely, and prices will likely be near their lowest levels this winter.

More Processed Vegetables

Present indications suggest moderately larger supplies of processed vegetables for the new marketing season. But the picture is not balanced since gains are concentrated in the tomato lines and in frozen items.

In contrast, the supply of canned vegetables (exclusive of tomatoes) will likely be about the same as the tight supply of the 1973/74 season.

A larger supply of frozen vegetables, the possibility of significant off-season frozen pack again in California, plus some winter-harvest green beans for canning in Florida, and some additional frozen imports from Mexico, would partly ease the situation. Disappearance of processed vegetables in 1974/75 can be expected to equal or fall slightly below the previous season despite the probability of a larger total supply.

For factual information about important food and farming topics, check this spot. It highlights recent reports on the issues, chosen for brevity and clarity. To get a copy of the report, clip and send to address indicated with your name, address and zip code.

Agriculture in the United States and Soviet Union, FAER-92, 20 pp. Stack up farming in America and Russia and what have you got? Basically more farmland there, but greater productivity here. This is a brief and fascinating comparison of the Agriculture of the two great powers. Both crop production and livestock output are compared.

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ECONOMIC TRENDS

Preliminary estimates of the *gross national product* put the drop in real economic output at 2.9 percent in the third quarter of 1974. This followed drops in the real GNP of 1.6 percent in the second quarter and 7 percent in the first. The inflation factor in the third quarter GNP was 11.5 percent, a rise from the second.

Retail sales dropped 1.3 percent between August and September. September sales were 9 percent larger than a year earlier, reflecting smaller volume but higher prices than in September 1973.

After two months of decline, *U.S. industrial output* inched higher in September. However, September's output level was a little below September 1973.

Unemployment rose nearly ½ percent to 5.8 percent (seasonally adjusted) in September. This was the highest level in 2½ years.

Inflation slowed on the wholesale level in September as *wholesale prices* rose only 0.1 percent. Wholesale prices of farm and food commodities fell 1.2 percent during the month. *All retail prices*, however, jumped 1.2 percent (seasonally adjusted), adding to the 1.3-percent hike of August. The retail food-price component pushed 1.4 percent higher during September, boosted by meats and many other items.

SHORT INPUT SUPPLIES

TO END . . . EVENTUALLY

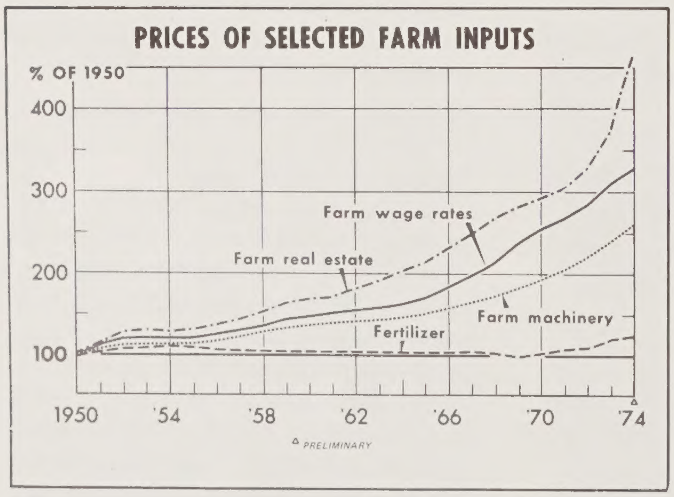
The next year will bring little relief from shortages of major farming supplies. However, looking further down the road, farmers and ranchers should see an end in sight to tight supplies of fertilizer, pesticides, machinery, spare parts, and other production needs. For the short run, however, higher prices are seen along with difficulties in obtaining farm supplies, particularly pesticides and fertilizers.

Even though realized net farm income is declining in 1974, farm prices remain strong, and farmers will be customers for continued large quantities of inputs for the upcoming planting season. Here is our assessment of the shopping list of farm inputs that producers will need to purchase:

Petroleum fuels—Earlier this year, nearly every State reported severe shortages of gasoline, diesel, or LPG. However, supplies throughout the spring and summer were adequate. The fuel supply outlook for farmers is good, with the mandatory fuel allocation program promising 100 percent of needs.

Fertilizer—The fertilizer situation was tight this year and will remain so in 1975. Nitrogen could be 8 percent short of anticipated demand and phosphate 4 percent short. Potash supplies will be tighter than in the past year but should cover demand. Prices will continue to rise, but less strongly than they have this year.

Machinery—With net farm income expected to decline in 1974, relatively high interest rates, and the high levels of sales in the past year, demand for new machinery is expected to slacken by mid-1975. Prices in 1974 are up about a fifth over 1973.



Baling wire and twine—This past year saw, in over 30 States, extremely tight supplies of wire and twine. Prices are up significantly. Wire is 2½ times year-earlier levels, and twine prices are up 4 times. The situation seems to be easing somewhat with the resumption of operation of a major wire manufacturing plant and increased twine imports.

Pesticides—Farmers this spring saw shortages of pesticides for cotton, wheat, and soybeans along with unusually high prices. For 1975, supplies could deteriorate even more because of delays in plant construction due to uncertainties concerning regulations, price controls, and feedstock and intermediate chemical availability. Prices will increase next year. How much depends on demand, cost of intermediate products, and wage rates.

Transportation—In 1973, the record movement of grain into export encountered numerous transportation bottlenecks. This situation is not expected to be repeated in the 1974/75 marketing year because the backlog of grain for shipment has been worked off and there also has been a 10-percent increase in the covered hopper car fleet this year. If many farmers continue to hold grain for higher prices, this also would tend to spread transportation requirements.

Finance—In the area of farm real estate, demand for mortgage funds may moderate in the fourth quarter after a strong third quarter. Because of strong demand for insurance policy loans and the usury limits on interest on loans in some States, insurance companies are likely to restrict lending to farm mortgage borrowers. Federal land bank loans, in contrast, could be up by a fourth. In non-real estate farm lending, for the last half of 1974, loan volume has been rising briskly, and interest rates may stabilize with prime rates lower.

IT COSTS MORE TO BE SWEET

Americans consume an average of over 100 pounds of sugar per year, and higher sugar prices are reflected in higher food bills. This year, month-to-month price hikes for sugar have contributed to the increase in retail food prices.

Basic reasons for this year's high sugar prices (the 'world' price hit a record 42 cents per pound in October, on its way up) are tight domestic and world supplies, low stocks in Canada and Japan for the first half of 1974, buying by Middle-East nations, and uncertainty raised by the expiration of the U.S. Sugar Act at the end of this year.

On the supply side, although hurricane Fifi had little effect on Central American sugarcane, beet harvests in the United Kingdom, France, and the USSR may not be as large as originally planned.

Because of short plantings in the United States and the adverse impact of hurricane Carmen on sugarcane, projected 1974 U.S. sugar output may fall 600,000 tons short of the domestic quota. As we did last year, we would reallocate this shortfall among foreign sources. Of the projected deficit, some 350,000 tons is for the Mainland area, while 200,000 tons come from the 18 sugarbeet-producing States. The remainder is split between Hawaii and Puerto Rico.

MORE MILK WORLDWIDE

The past few years have seen an upward climb in world milk production of 1-2 percent a year. Assuming normal weather for pastures and feed crops, this situation is projected to continue into 1975.

World output did slow in 1973. For three dozen major countries, production was up 1-1½ percent, compared with 2½ percent in 1972.

During 1974/75, milk production in Europe and the USSR should rise at least as much as the 2-percent rise in cow numbers occurring in calendar 1974. . .A return to normal weather in New Zealand following the drought conditions of 1973/74 could result in a 10-percent recovery in milk output for 1974/75. . . .Our own milk production may be down 1 percent this calendar year in reaction to sluggish retail markets as well as high feed prices.

World prices of most dairy products are beginning to rise seasonally. The price rise is not necessarily an indication of strong markets, but of price support increases by various governments. Even with abundant milk supplies in 1975, inflation makes further rises in foreign support rates very likely.

DOCKSIDE REPORT

In fiscal year 1974, cash receipts to farmers for their marketings jumped 30 percent. But exports of agricultural products during the fiscal year, which ended June 30, 1974, were 65 percent higher in value than the season before.

Farm exports in fiscal 1974 were valued at $21.3 billion, nearly one-fourth of cash receipts in this period of $92.2 billion. Not incidentally, both figures set records.

Livestock products comprise 51 percent of farm cash receipts but only 8 percent of farm exports. Crops provide the other half of cash receipts and over nine-tenths of exports. Thus, exports of livestock and livestock products equaled only 4 percent of corresponding cash receipts, while crop exports were 43 percent of crop sales.

Leading Export States

Looking at cash receipts for 1973 that sold for export in fiscal year 1974, the following States were leading contributors of products for export. The dollar values represent their share of cash receipts in exports:

Leading export earners, 1973

	Billion dollars
Illinois	1.9
Iowa	1.8
Texas	1.7
Kansas	1.6
California	1.2
Minnesota	1.2
Nebraska	1.0
Indiana	1.0
North Dakota	0.8
North Carolina	0.8

Changing Export Customers

In the past few years, significant changes have occurred in the roles of the world's regions in buying our agricultural exports. Many factors have been at work affecting the values of what we ship and to where. Some of them have been the expansion of Communist countries in world trade; the impact of trade barriers such as the European Community's (EC's) variable levy system; relative changes in national wealth, such as the sudden gains of oil-exporting nations; the leveling out of P.L. 480 and other U.S. aid programs; policies of other governments toward U.S. food aid; and the weather's capricious part in determining the production and import needs of our customers.

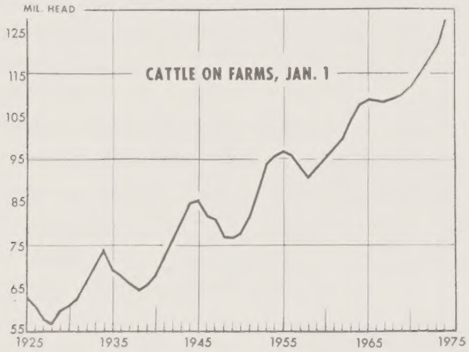
During fiscal year 1974, our farm exports increased $8.4 billion to $21.3 billion. Most of this increase was due to higher prices; only 15 percent derived from actual volume gains. Ten markets accounted for over half of this increase. And of these, growth rates in the value of U.S. farm exports shipped were greatest to the People's Republic of China, Brazil, Mexico, and Taiwan.

Exports to the EC have declined in relation to total exports, although U.S. sales to the EC rose 5 percent in fiscal 1974. Agricultural exports to Eastern Europe and the USSR dropped 8 percent in the last fiscal year. Our biggest customers, Japan and Canada, each raised the value of their takings by half. Latin America upped its value by over 100 percent, and U.S. agricultural shipments to China advanced by fourfold.

CATTLE CYCLE CRESTING

Since 1965, we have experienced exceptionally rapid growth in the consumer demand for beef. During this period, consumer incomes have doubled. Consumers have been sending price signals to the cattle industry telling it to expand. Retail beef prices rose 70 percent from 1965 to 1973. Feeder cattle prices more than doubled.

Cattlemen responded strongly. The cattle herd grew from 109 million head in 1965 to over 127 million head at the beginning of this year, a 17-percent increase.



Today it's a different story. Although demand for beef has remained strong, the economy has changed its tune to high inflation and rising unemployment and 3 quarters of decline in real output. These changes, and more importantly the current feed shortage situation, are sending unmistakable price signals to the rancher—prices of feeder cattle have dropped to half of year-earlier levels. They tell him that further expansion is undesirable.

Adjustments

Since cattle feeders cannot pass on their increased feed costs to consumers in the short run, they are making adjustments, and bidding lower, on their other major input cost—feeder cattle. With record supplies of feeder cattle available, it has quickly become a buyer's market—a complete reversal of the situation of only several months ago.

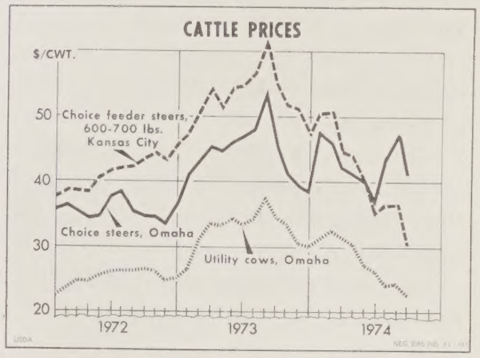
Lower feeder cattle prices with rising production costs will force stockmen to bring feeder cattle supplies in line with current cattle prices and force an adjustment in numbers. The length and severity of this downswing in the cattle cycle will depend basically on two things. The first is weather, which we cannot predict. Another dry summer next year would force additional culling of the cow herd and possibly reduce the feed grain harvest again, pushing feed prices even higher. The second is the health and growth of the economy as the source of demand for beef.

Fed cattle marketings this fall could be down 10 percent or more from the fall of 1973. The number of cattle on feed in 23 States on October 1 was down a fourth. However, cow slaughter could run over 15 percent above the fall of 1973 and slaughter of steers and heifers off grass or with little grain feeding may run between 1½ and 2 million head, 4 to 5 times as many as last fall. Thus, total cattle slaughter may exceed October-December 1973 by 6-8 percent, and be seasonally larger than July-September. Lighter weights of slaughter cattle may temper the increase in beef production. Like summer, general range and weather conditions will have a significant impact on slaughter of steers and heifers off grass this fall.

Consumer Choices

Consumer preference for Choice grade beef will be important in shaping cattle prices. If retail marketing policies allow, and some consumers readily switch to lower grade beef at a lower price as they appear to be doing, then Choice steer prices will remain under summer levels despite smaller supplies of fed cattle, as the total beef supply increases from the summer. Also, pork production is increasing seasonally this fall.

Choice slaughter steers during October-December are expected to average \$2-\$3 under the summer level of \$44 but the prices of other classes of cattle, Good grade and below, will be much lower than summer levels.



Beef supplies are expected to continue higher than a year earlier through the first half of 1975 although the margin of increase may slow. A much tighter beef supply situation could occur next spring when pastures green up and catle are moved back to grass. With really good feed conditions, prices for fed cattle could rise sharply with feeder cattle and cow prices also strengthening.

Herd Liquidation Unlikely in 1975

The January 1, 1975, inventory could stand at 133-135 million head, up 6 to 8 million from a year ago. Although many cows are being culled from the herd this year, many will be replaced by heifers which are selling at low prices. Next year's calf crop will probably again be larger, but perhaps the rate of increase will slow.

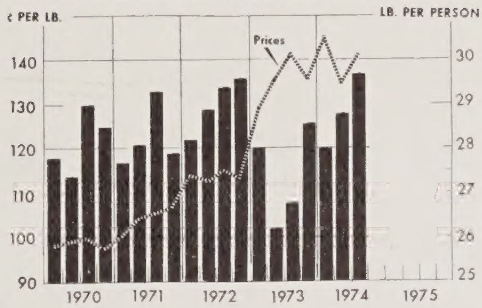
To entirely stop the growth in the herd next year, cattle and calf slaughter would have to be up in excess of 20 percent, to around 47 million head. An increase of this magnitude seems highly unlikely unless widespread drought conditions recur next year. However, continued sharp increases in calf slaughter for the remainder of 1974 and on into 1975 could reduce cattle slaughter supplies by 1976.

BEEF DEMAND STRONG

There is evidence that consumer demand this year is quite strong.

That evidence is the spending pattern for retail beef. Although spending dipped some in the second quarter, it has remained well over 1973's high level. This summer, consumers spent more total dollars for beef than at any other time in our history, and they used a larger than usual part of their incomes to do so.

PER CAPITA BEEF CONSUMPTION AND RETAIL PRICE



This buying spree is substantiated by the amount of beef per person being purchased this year. Per capita beef consumption is up for each quarter of 1974, and could match or slightly exceed the previous record of 116 pounds per person set in 1972.

In recent years, such strong demand has signaled further expansion by cattle producers and feedlot operators. But this year, soaring feed costs have emptied feedlots, which has depressed feeder calf prices, thus jamming the signals that consumers are sending to producers via the checkout counter.

MEAT MARGINS STILL HIGH

Retail beef and pork prices have come down a litle since early 1974, but the farm-to-retail price spread is as wide as ever.

Price spreads for beef have widened substantially in the past decade, particularly since 1968. Between 1963 and 1968, the spread for beef hovered around 28-30 cents per pound. That is, the retail price per pound averaged 28-30 cents higher than the value to the farmers of 2.28 pounds of live animal—enough to yield a pound of retail cuts.

By 1973, the price spread had increased to 45 cents per pound—an increase of almost half since 1968. This 45-cent average included a low of under 40 cents in January and a peak in the fall months of about 55 cents.

During 1974, the price spread eased during July and August to under 50 cents per pound, but otherwise has been over the 50-cent mark. In early October, the gap between farm value and retail price remained near record proportions, about 55 cents per pound.

Retail beef prices during the last half of this year are closely mirroring those of last year. After averaging over $1.40 per pound in summer, fall prices are easing, down to around $1.35 per pound. Net farm values, however, are down from last fall, with the wider middleman's spread making up the difference.

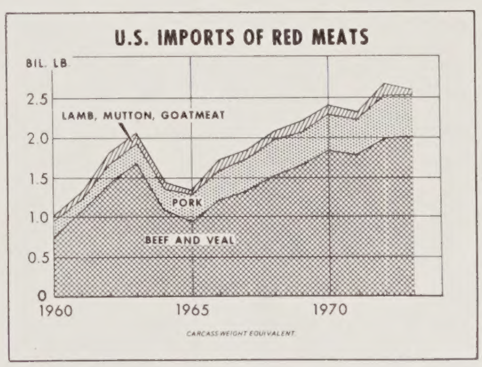
Farm value, price spread, and retail price of Choice beef

	Net farm value of 2.28 lb. of steer		Farm-retail price spread		Retail price per pound	
	1973	1974	1973	1974	1973	1974
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
January	82	97	40	46	122	143
February	88	95	43	56	130	150
March	92	86	43	56	135	142
April	91	84	45	52	136	136
May	93	83	43	52	136	135
June	95	78	41	55	136	132
July	97	91	40	47	136	138
August	109	98	36	46	144	143
September	92	86	53	56	145	142
October	83		53		136	
November	80		55		135	
December	80		55		134	

Meat Imports Down

There is a worldwide meat surplus and the traditional meat exporting countries are having a hard time selling their products. We have a law that restricts imports of most meats when the import level crests a specified volume. Although that law has been suspended by Presidential order since 1972, even with no legal barriers against imports functioning right now, actual meat imports are down this year.

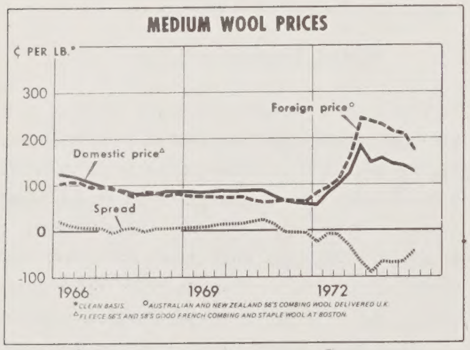
Calendar year 1974 imports of meat subject to quotas will total an estimated 1.115 billion pounds, down 18 percent from 1973. The slowdown in imports is due to the large U.S. beef production, lower prices of manufacturing beef, good pasture conditions abroad, and shipping problems in Australia.



WOOL DEMAND MAY REVIVE

Consumption of raw wool and wool textiles may improve slightly next year if wool prices remain stable and if inflation and interest rates ease as expected. Wool will continue to have strong competition from synthetics. However, the inroads seen in previous years are not expected to be so dramatic in the future because of higher prices and lower supplies of these fibers.

For all of 1974, farm prices will likely average between 60 and 65 cents a pound, down from 83 cents in 1973. The prices received in 1973 marked the first time since 1954 that prices had gone above incentive levels. With this year's prices falling within lower ranges, averaging below the 72-cent incentive price offered under the Wool Act, producers may receive small payments on 1974 marketings.



Where the Sheep Are

During the past two decades, the rate of decline in sheep numbers has been less in the West than in most other areas. This is because in much of the West, feed and range conditions are more suitable for sheep than for cattle. The South Central region has dropped the most since 1950, about 50 percent, followed by the East Central and West North Central regions where numbers have declined about 30 percent over the past quarter-century.

U.S. imports of raw wool were the lowest on record last year and have declined even further this year. This year, apparel wool and carpet wools have dropped 50 and 63 percent, respectively, from the same period a year earlier. Conversely, lower wool prices here than abroad during the first half of 1974 surged exports of raw wool to about 2½ times depressed January-June 1973 levels. Wearing apparel, blankets, and carpet and rug exports are up this year also. Exports of wool textiles are down slightly, reflecting substantially reduced shipments of wool tops to Japan. Raw wool prices on world markets are down about 35 percent from last year, and prospects are little better for next year.

This fall again points to a smaller domestic wool supply, but holds out some prospects for an improvement in demand for wool in 1975. Despite relatively high raw wool prices, the 13-year downhill slide in U.S. shorn wool production will most likely continue in 1974. Texas, the Nation's leading wool producing State, may have a clip of about 2½ million pounds less than last year. Wyoming, the second largest producer, may have about ¾ million pounds less. The outlook for 1975 is for a continued decline in sheep numbers. However, if wool prices continue in the 60 to 65 cent range in the near future, producers may take steps to rebuild flocks.

Less Lamb—Commercial sheep and lamb slaughter was down 7 percent for the first 9 months of this year. This fact, combined with lower slaughter weights and lower dressing yields, dropped lamb and mutton production by 9 percent. The decline in supplies resulted in an unusual rise in lamb prices in April, with prices peaking in May. Normally lamb prices peak much earlier in the year when spring lambs are first offered. Slaughter supplies this fall and winter are expected to continue below year-earlier levels. Sheepmen faced the same dry pasture conditions that cattlemen saw this summer, and slaughter rates rose accordingly. Slaughter rates jumped sharply in July and exceeded year-earlier levels in late August and early September. Rains did come to the East and Southwest in August and September, improving feed conditions to the extent that marketing patterns for the rest of the year will follow a more normal pattern of generally declining slaughter rates.